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SUBJECT: QUEBEC LUMBER INDUSTRY ON SOFTWOOD STATE OF PLAY

SENSITIVE BUT UNCLASSIFIED -- PROTECT ACCORDINGLY

1. (SBU) Summary: Post recently met with Quebec lumber officials who told us the Province's first priority is to head off a Lumber V and carve out a permanent solution to the bilateral dispute. They argued that American industry is not benefiting from the U.S.-Canada softwood lumber dispute as Chile and other South American and European countries are "coming in through the back door," occupying a share of the market previously held by Canadian companies. Quebec lumber officials say Quebec Province is in agreement with other Canadian provinces on the overall principles of a resolution but there is still no consensus on a reengagement strategy. Quebec lumber industry officials recently met with federal Trade Minister Jim Peterson and urged that softwood lumber be on the agenda when President Bush and PM Martin meet in Ottawa later this month. End Summary.

2. (U) On November 17, Consul General checked in with Georges Courteau, President of the Quebec Forest Industry Council (QFIC), and Marc Boutin, Director of International Trade at the Council. QFIC represents Quebec's 275 mills, which they say generate employment to 150,000 people in the province. 250 Quebec communities depend almost entirely on the lumber sector and the social impact in the regions is enormous. Lumber is the second largest contributor to the Quebec economy after energy.

3. (U) The QFIC officials said we are at the terminal phase of the legal process, with ninety percent of WTO and NAFTA litigation now resolved. The U.S. lost the first five cases and Boutin expected it would lose the sixth. With this as a backdrop, Courteau and Boutin said Quebec's highest priority is to prevent a Lumber V. The province wants a long-term and durable solution. Courteau and Boutin conceded that there is dissidence among the provinces on how next to proceed. On one end the more cautious (read Quebec) prefer to wait for the results of ongoing litigation while others want to return to the negotiating table.

4. (U) Courteau and Boutin stated that while the U.S. and Canada are fighting the softwood lumber battle, South American countries, notably Chile and Brazil, are taking over what was previously Canadian market share. European countries such as Austria, Germany, Sweden, and now Russia, also have begun to move in. "The enemy is coming in through the back door," said Boutin. He argued that, as a result, U.S. industry is far from benefiting from these circumstances. Nowadays, forty percent of Quebec's volume is exported to the U.S., with the rest going mainly to the Canadian domestic market, according to the QFIC officials. But before this latest round, they said, Quebec was exporting fifty percent of its volume to the U.S.

5. (U) The QFIC officials expressed some concern about Montana Senator Max Baucus' proposed bill that would have the \$3.6 billion in lumber duties paid by Canadian companies handed over to American forest companies. At the same time, they cautiously reckoned the bill would not be approved by Congress although they added, "one must not presume anything." Responding to a question from the CG, Courteau said Quebec's share of the duties is somewhere between 22-23%, or \$700-800 million.

6. (SBU) QFIC officials told us that their U.S. industry counterparts have told them that, on the U.S. side, the "big guys" want to settle because they are tired of the situation. The perception that Canada is using public forests and practicing unfair competition is exaggerated and U.S. industry knows this, they said. Our interlocutors told us that anxiety is high on the American side and that everyone is waiting to see how the Administration will proceed, especially with the departure of Secretary Don Evans.

7. (SBU) Courteau said Quebec lumber industry officials recently briefed federal Trade Minister Jim Peterson. They pressed Peterson to put softwood lumber on the agenda when President Bush and PM Martin meet in Ottawa later this month. Martin is leading a minority government and as a result, the CFIF believes the PM will have to heed industry more than the federal government has in the past.

